number change is necessary and therefore do not seem to be relevant to the decision to adopt number portability.

- In addition to having these basic expectations of a new local provider, residences also have these requirements if they are considering their existing long distance company for local service and may choose a different company if they are not satisfied with their current long distance company. While the majority of AT&T long distance customers (75%) would also select AT&T for local and toll, only one-third (35%) of MCI customers and not quite half (44%) of Sprint customers would choose their existing carrier for local and toll services, implying a certain level of dissatisfaction with these companies.

Differences between Types of Residences

- To some surprise, the Low Income segment did not show substantial differences from the total residence population. In general, they were slightly less likely to switch in any given situation, even if considerable discounts were involved.

- The segment of residence customers most impacted by the availability of number portability is those who work at home. While the increase in percent of residences willing to switch without versus with number portability is +13 across all customers, the increase among the work at home segment is +18, suggesting they are more sensitive to a number change. However, with number portability, over half of this segment (54%) is willing to switch (assuming long distance company and 15% discount).

- In general, younger customers are more willing to switch local access providers regardless of whether number portability is available or not. Likewise, larger households are also more likely to switch than smaller households. Additionally, availability of number portability has more impact on smaller households (1 or 2 people), suggesting that members of this segment place more value on keeping their telephone numbers.

- Similarly, households with higher monthly telephone bills are more likely to switch overall, but are less sensitive to having their number changed. The same holds true for MCI and Sprint customers versus AT&T customers.

- Other than those differences, the "value" of the telephone number (as determined by the difference between those who switch with or without a number change) does not differ much between different types of residences. Past switching behavior and mobility variables do not differentiate customers as far as the importance of keeping their number.

Other Influences on Willingness to Switch

- Although perceived by consumers as "perks" that must be accompanied by a discount on service, other potential incentives to switch local access providers were also tested. Only a few of these seemed to have much influence on the decision to switch, primarily "financial" incentives such as a 10% discount on long distance service, free basic cable television service for 3 months, a $35 check or free call waiting for 1 year. These incentives would only strongly impact about one-fifth of all consumers.

Understanding of Potential Local Access Competition

When the focus group participants were first presented with the concept of local access and toll competition, there was some initial confusion and concern. Most of the concerns raised regarded the potential impacts a service provider change would have on other aspects of their existing telephone service. For example, there were questions about how long distance services would be affected if a customer switched from Pacific Bell. More rudimentary concerns were raised regarding repairs, the availability of calling cards, and whether or not their number would still be listed in the White Pages directory or available through Directory Assistance (411).

In addition, there was a great deal of confusion about the differences between "local" and "toll" calls. While customers understood that there was a difference, they could not accurately define the distinguishing characteristics of an intraLATA toll call (e.g., miles from the household, area codes, townships, prefixes, etc.), although most agreed that they were the "expensive" calls on their Pacific Bell bill. Consequently, most participants felt it was very confusing to have different discounting for local access versus toll services because it would be impossible for them to know which calls were which. As a result, it became necessary to describe a discount as a percentage less than whatever a residence customer pays their local telephone company now (in total), rather than discounting specific aspects of the service. This important finding became the basis for the discount attributes in the quantitative study.

It also was apparent that a certain amount of education and clarification was necessary for the participants to understand how local access competition and switching providers would affect them as a residential customer. When a new competitor enters the market, it is likely that they would educate potential customers about the local telecommunications environment and explain the impact of switching providers so as to simplify their sale. As a result, the quantitative survey was designed to simulate a "competitive pitch" as closely as possible by clearly defining the present local telecommunications environment, describing CPUC changes, and minimizing confusion by delineating those telecommunications services that would be unaffected by switching providers.

Willingness to Change Local Access Provider or Telephone Number

Several issues regarding a residence's willingness to switch its provider or phone number were raised by the participants or uncovered during the groups. Most importantly, a residence's willingness to switch, in general, seemed most strongly related to the discount offered. Almost all participants assumed there would be a discount involved with switching even before a number change was mentioned. Many participants showed some savvy in dealing with telecommunications companies by bargaining for a higher discount. In fact, several mentioned how they used offers from other long distance companies to negotiate a better price from their existing company. All also assumed there would be no cost to them for switching.

Other than discount, there were some interesting reasons why customers would be willing to switch local service providers. Some participants were willing to switch without any discount to consolidate their telecommunications services with one company. Those customers pointed to the advantages of a "single point of contact" being simplified and uncomplicated, like the "way things used to be." A few felt that the entire telecommunications industry had become too confusing since the breakup of AT&T.

On the other hand, most other participants felt that local competition would be positive for consumers ("Competition is a healthy, American thing"). Some even went as far as saying they would be willing to switch because they no longer wanted to have service from Pacific Bell ("They've been ripping us off for years").

Despite the perspective participants had, most agreed that they would need to know the exact offer before switching and that the new service would have to be as good as Pacific Bell's to be considered. Once these concerns were addressed and a discount level was "accepted" by participants, the concept of number change was introduced. For the most part, there was not too much "re-negotiating" on the part of participants, and the majority indicated they would still switch. However, some new concerns were raised. Primarily, all participants assumed there would be a number change announcement similar to what exists now. In addition, many participants wondered what would happen if they switched providers, changed numbers and then decided to switch back (for example, if savings were not realized or the quality of service was inadequate). Since consumers are aware that they can usually switch back to their original long distance company at no cost, they would want the same flexibility for local and toll services. However, if number changes were required each time they switched, participants felt it could be extremely confusing; some even worried that there would not be any telephone numbers left.

Influences on Willingness to Change Local Access Provider

After discussing the major issues surrounding local competition and a potential number change, participants were asked to suggest incentives that would motivate them to switch local access providers. Invariably, respondents immediately mentioned a discount off of their local, toll or long distance service. However, to ensure that all possible options were explored and then to narrow the field of incentives to be evaluated in the quantitative phase, an inventory of potential incentives and/or number change mitigators were evaluated in the qualitative phase. The list of incentives tested are shown below.

As mentioned before, the discount or savings on local/toll service and the type of service provider would influence most participants' decision to switch. The service provider was particularly important to some participants, and there was generally a strong resistance to switch to an "unknown" brand unless the company offered the same level of customer service, service quality, a "proven track record", and brand familiarity that they currently have.

Influence of Incentives/Mitigators on Willingness to Change Access Provider

	High	Medium	Low
• Discount on local/toll service	✓		
• Discount on long distance service		✓	
• Service Provider:			
Long Distance Company	✓		
Other Telecommunications Company		✓	
Cable TV Provider (depends on provider)		✓	✓
• Announcement of Number Change	✓		
• Announcement and Automatic Transfer		✓	
• Duration of Announcement/Transfer		✓	
• Ability to customize announcement			✓
• Free Call Waiting for 1 year	✓		
• A $35 check	✓		
• Savings on cable television service		✓	
• Free telephone set			✓
• Discount for 1-year contract			✓

In addition, some participants were unwilling to switch their local and toll service without some type of "money-back guarantee" or trial period after which they could return to Pacific Bell without penalty. Others also wondered about the "local presence" of a provider and questioned how a national long distance company could effectively provide local service.

When evaluating a cable television company as a potential provider of telecommunications services, the reactions were mixed and depended upon the type of service relationship a participant had with the current cable provider. While many participants would not even consider a cable company because of a "bad experience," customers who had had limited problems with their cable provider would consider switching their local and toll telephone services. For these customers, free cable television offers (e.g., basic subscription or premium channel) had substantial influence on their willingness to switch. However, the viability of a cable company offering long distance service presented a conflict, as some participants perceived cable companies as "local" or "regional" entities.

In terms of the impact on their telephone number, while a standard number change announcement would be a requirement for participants to change numbers, an announcement with transfer, and the duration of the announcement or transfer were less important. Having the call transferred automatically after the announcement was relatively appealing, however, the opportunity to customize an announcement did not seem necessary to most residential participants. Additionally, most participants felt that the announcement for 6 months was sufficient for their needs. Although some participants responded favorably to a longer duration for the announcement, this was not likely to greatly influence their decision to switch local access providers.

Of limited influence on a participant's decision to switch local access providers was the offer of a free telephone set. However, it should be noted that some participants were willing to switch if the free phone was a cellular phone. Also of limited influence was a discount on services if locked into a one-year contract. While customers were drawn to the potential discount offered, there was a great deal of hesitancy to "commit" contractually to a company for one year because other telephone companies might have better prices in the interim.

While other incentives and marketing tactics could be used by actual entrants into the local telephone market, it would have been impossible to test all potential incentives and/or mitigators to a phone number change. Additionally, all consumers, when offered a "perk," will respond positively, even though there may be no significant impact on their final decision. Regardless, the evaluation of marketing strategies to mitigate a phone number change was not an objective of this research study. From the discussion surrounding these incentives, the major issues were determined and included in the quantitative phase, specifically, the discount on local/toll service, the service provider and type of services offered and the type of number change announcement.

The following section covers the findings from the second, quantitative phase of the research, and is categorized as follows:

- Current Telecommunications Environment
- Impact of Elements on Willingness to Switch Providers
  - Technological Solutions
  - "Brand" and Service Bundling
  - Discounts
- Trade-off Between Service Discount and Number Portability
- Willingness to Pay to Keep Telephone Number
- Value of Number Portability by Residence Characteristics
- Impact of Other Elements on Likelihood to Switch Providers
- Preferred Provider for Local Access
- Impact of Referral Announcement on Calling Behavior

In most sections, the results have been reported by "Total" (random sample of all Pacific Bell customers) and "Low Income" (Universal Lifeline qualifications). As shown in the Sample Design section, there is some overlap between these groups. However, the "Total" segment reflects the actual proportion of Low Income customers that is found in the population.

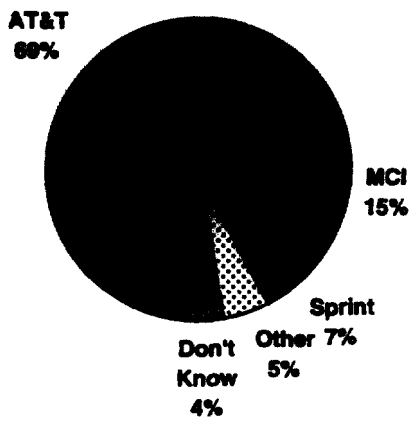
The following two pages provide a brief summary of the telecommunications environment among the survey respondents.

	Total	Low Income Only
Median Age	45.2 years old	48.2 years old
Average Household Size	2.7 persons	2.5 persons
Median Household Income	$40,483	$10,044
Have more than one line	23%	0%*
Have an unlisted number	36%	42%
Work at Home	20%	4%
Own their residence (versus rent)	62%	43%
Average Total Monthly Bill	$59.50	$49.10
Average Long Distance Bill	$30.70	$26.10
Use of Custom Calling Features		
- Call Waiting	40%	37%
- Call Forwarding	6%	5%
- Three Way Calling	5%	5%
- Voice Mail	7%	1%
Likely to Move Within Next 2 Years	33%	29%
Ever Changed Telephone Number	64%	55%
Average Years with Current Number	7.0	4.6
Ever Switched Long Distance Carrier	37%	31%
Use Remote Call Forwarding	2%	3%
Have Cable Television	63%	42%
	(n=447)	(n=119)

* By nature of screening qualifications

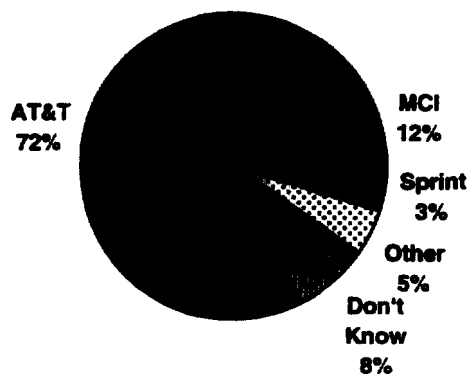
Current Long Distance Vendor

Total



(n=447)

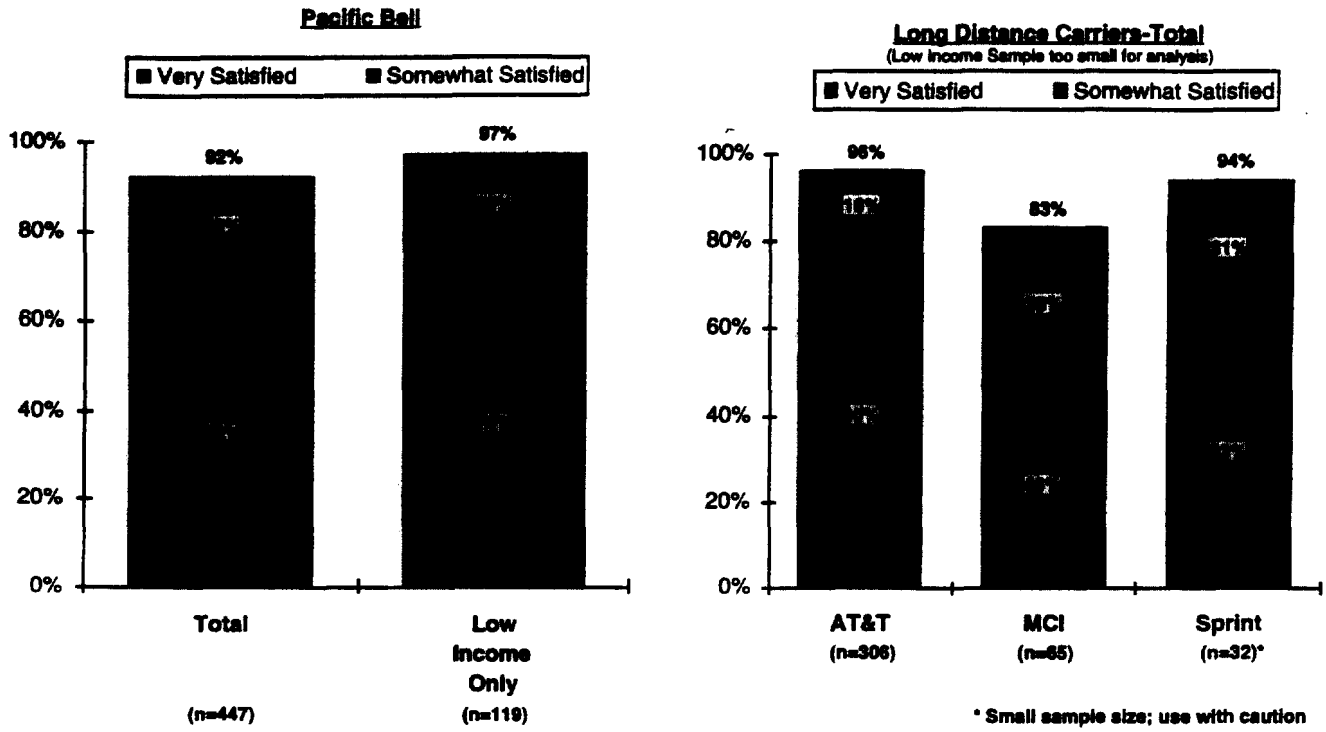
Low Income Only



(n=119)

The long distance providers used by the residence respondents generally reflect the composition of the long distance market shares garnered by AT&T, MCI and Sprint.

Satisfaction with Current Vendors



The majority of residential customers are satisfied with the service they receive from Pacific Bell and from their current long distance vendor. However, less than half (48%) of the respondents who use MCI were "very satisfied" with their service, suggesting that MCI customers have less loyalty to MCI in general, and may be more prone to switching carriers. On the other hand, satisfaction with AT&T (80%) is somewhat higher than satisfaction with Pacific Bell (70%), a finding that could influence likelihood of switching to AT&T for local service as well.

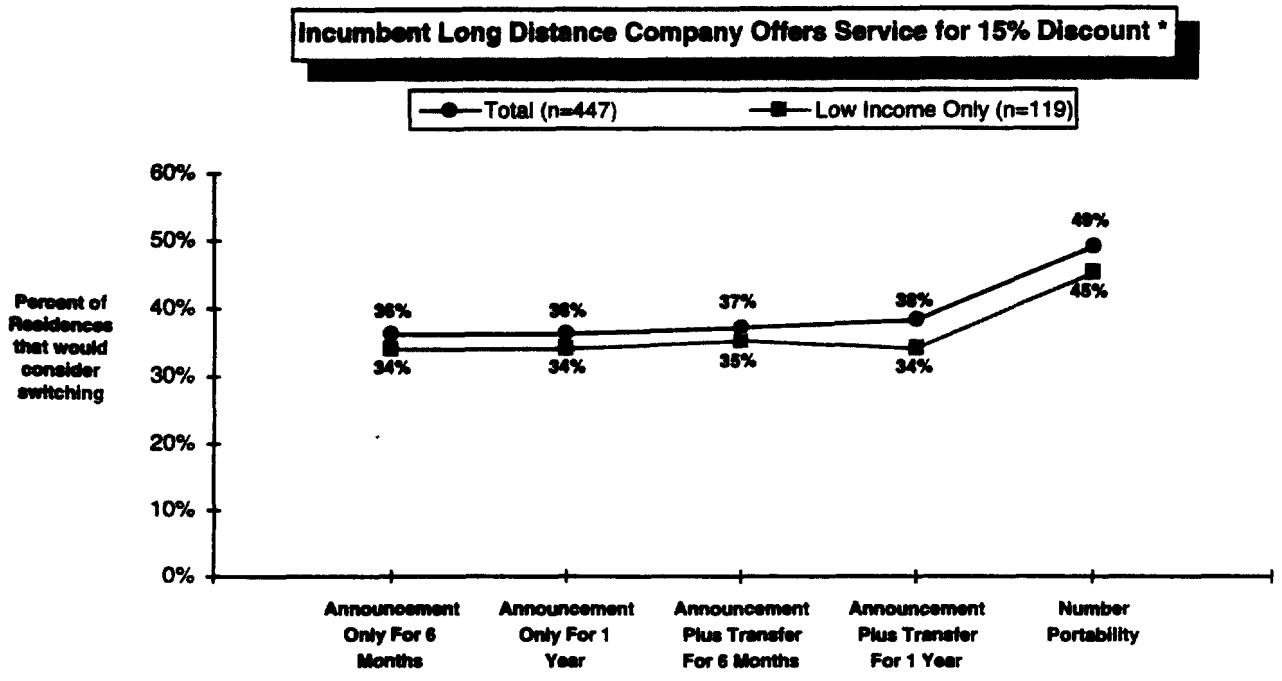
Impact of Elements on Willingness to Switch Providers

The following section outlines the relative influence of each of the major items that were included in the conjoint analysis. By holding all but one element constant, the influence of each element can be determined.

For consistency, a probable scenario was selected as the baseline for these comparisons. This scenario is: a long distance company offering local, toll and long distance services at a 15% discount (on local and toll), requiring a number change and an announcement for 6 months.

The results show both the percent of all residences and the percent of Low Income residences that are willing to switch under any given scenario.

Impact of Technological Solutions

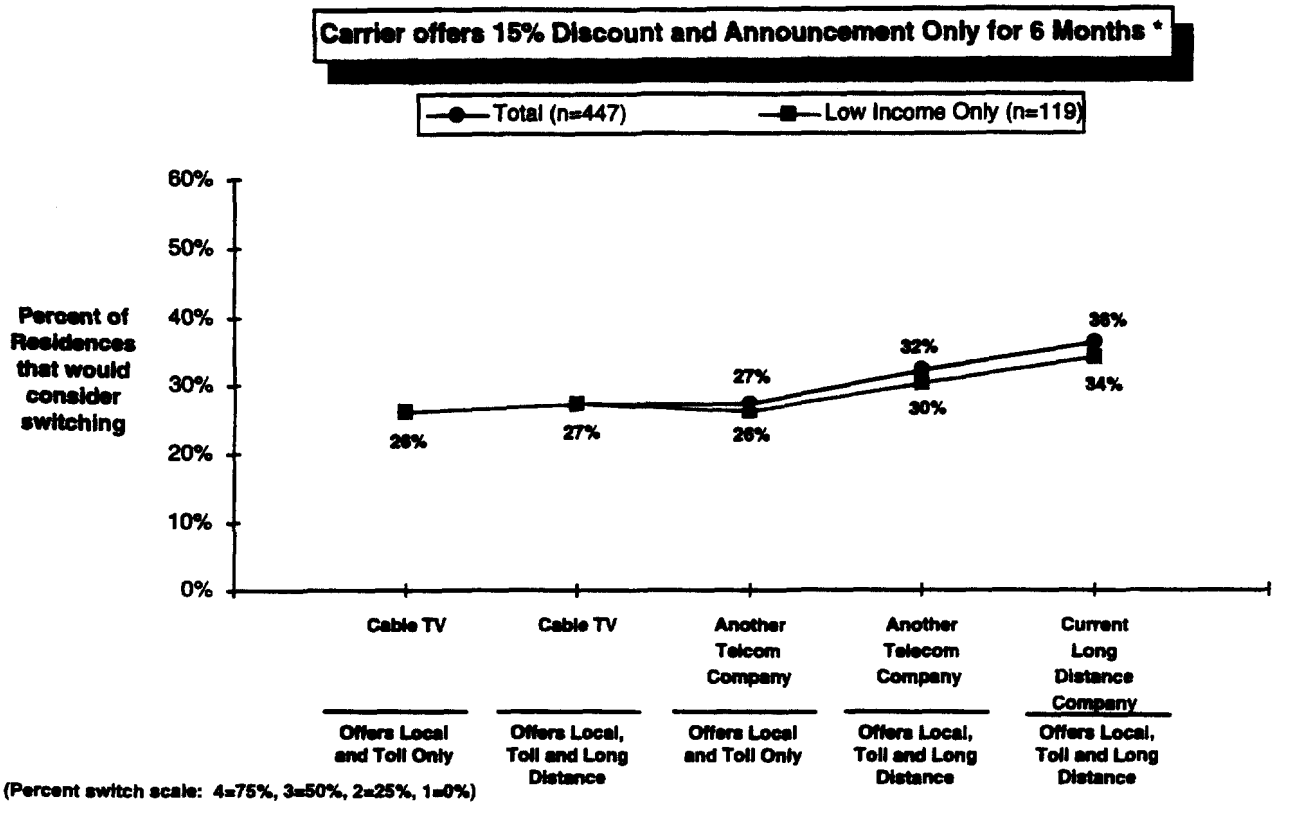


(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

The various technological solutions offered to mitigate a number change -- from a standard announcement for 6 months to an announcement with transfer for 1 year -- have relatively little impact on likelihood to switch local telephone providers. Regardless of the technological solution type or its duration, more than one-third (36%) of residence customers would consider switching even if a number change occurred. However, if number portability was available with this offer (long distance company and 15% discount), half (49%) of all residences would consider switching.

* Results for additional discount levels included in Appendix

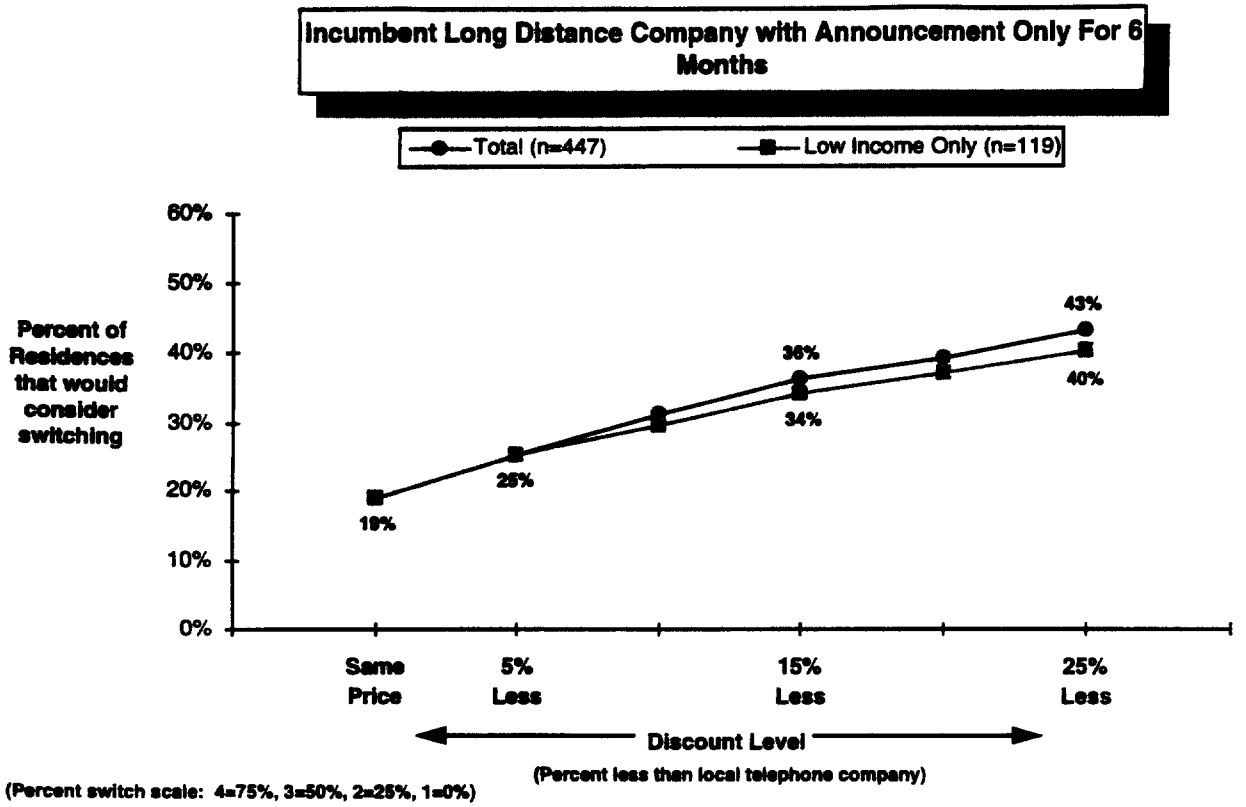
Impact of "Brand" and Service Bundling



While it appears that the incumbent long distance company may have a slight advantage in the local telecommunications market (36% would switch with a 15% discount and number change), residence customers are almost as willing to switch to a different telecommunications provider when bundled services are offered (32%). Without bundled services, one-quarter (27%) would consider switching to another telecommunications company, revealing a preference among residence customers for bundled services. However, the perceived advantage of a "single point of contact" for telecommunications is muted when offered by a cable television company (27%), suggesting that consumers may not perceive cable companies as credible sources for their long distance telecommunications needs.

* Results for additional discount levels included in Appendix

Impact of Discounts



(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

Discounts on local and toll service have a high impact on a residence's likelihood to switch local providers and seem to overcome the issue of number portability. While one-quarter (25%) of residences are likely to switch for a 5% discount, close to half (43%) would consider switching for a 25% discount even with a number change. The response to discounting was very similar among the total respondents and the Low Income respondents.

In addition about one-fifth (19%) of residence customers would switch companies without any discount at all and with a number change, most likely for reasons mentioned in the focus groups, such as a "single point of contact" or to "get away" from Pacific Bell.

Impact of Discounts

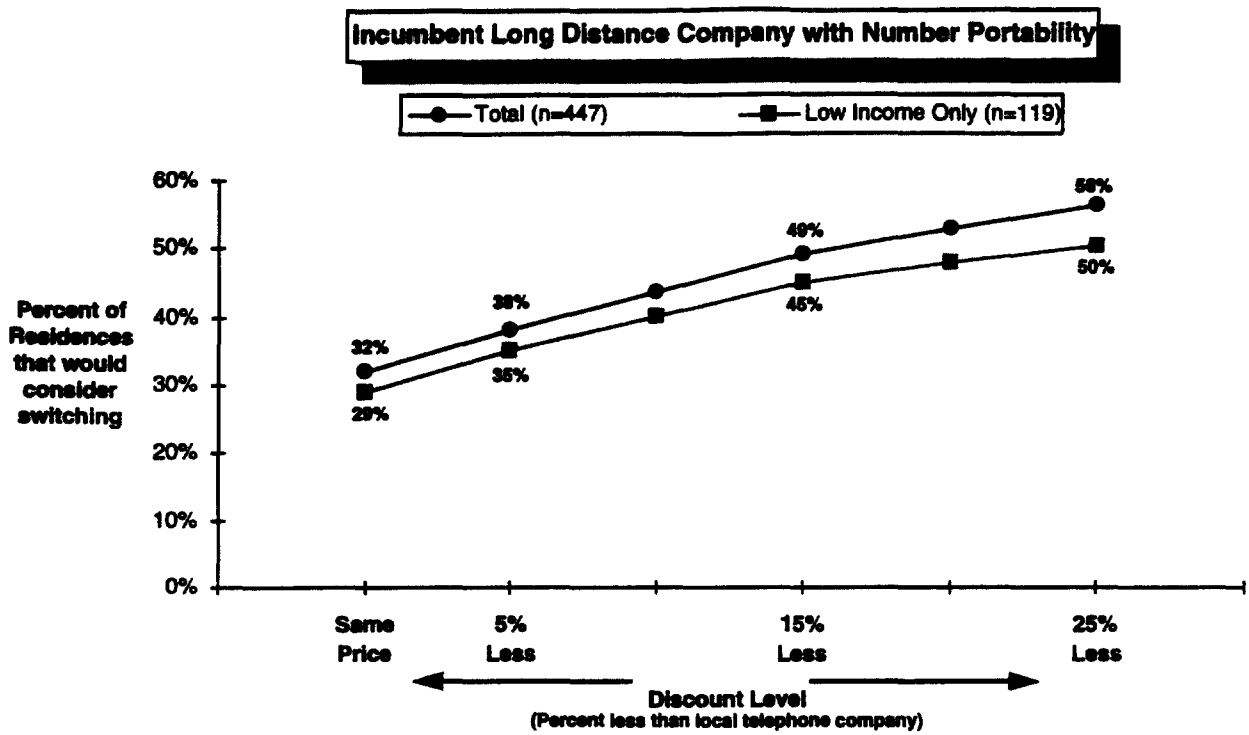
[redacted]

[redacted]	Same Price	5% Less	15% Less	25% Less
Another Telecom Company				
– Local, Toll and Long Distance	14%	21%	32%	38%
– Local and Toll Only	9%	16%	27%	33%
Cable TV Company				
– Local, Toll and Long Distance	10%	17%	27%	34%
– Local and Toll Only	8%	15%	26%	32%
[redacted]				
Another Telecom Company				
– Local, Toll and Long Distance	14%	21%	30%	36%
– Local and Toll Only	11%	17%	26%	32%
Cable TV Company				
– Local, Toll and Long Distance	12%	18%	27%	33%
– Local and Toll Only	10%	16%	26%	32%

(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

Regardless of the "brand" of provider, the impact of discounting is approximately the same among the total customer base. With a 25% discount, 24% more customers are likely to switch than at parity (e.g., 38% versus 14% for another telecommunications company; 34% versus 10% for a cable television company). However, there is an interaction between brand and service bundling. While another telecommunications company is slightly more appealing when offering local, toll and long distance services, a cable television company would garner relatively the same amount of customers, with or without bundled services.

Impact of Discounts



(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)
(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

If number portability was enacted, almost one-third (32%) of the residence customers would consider switching their local telephone company without any discount incentive. It would appear that current long distance companies could gain substantial market share by implementing a discount strategy, as more than one-half (56%) of all residences would consider switching if a 25% discount was offered. Additionally , since the price curve levels somewhat at 15% less, this discount level would still create the potential to lose half (49%) of Pacific Bell's residential customer base.

The relative impact of discounts on a Low Income customer's decision to switch may be slightly less than the total customer base, as the differential between the two groups widens between a 5% discount (35% vs. 38% = -3 points) and a 25% discount (50% vs. 56% = -6 points).

Impact of Discounts

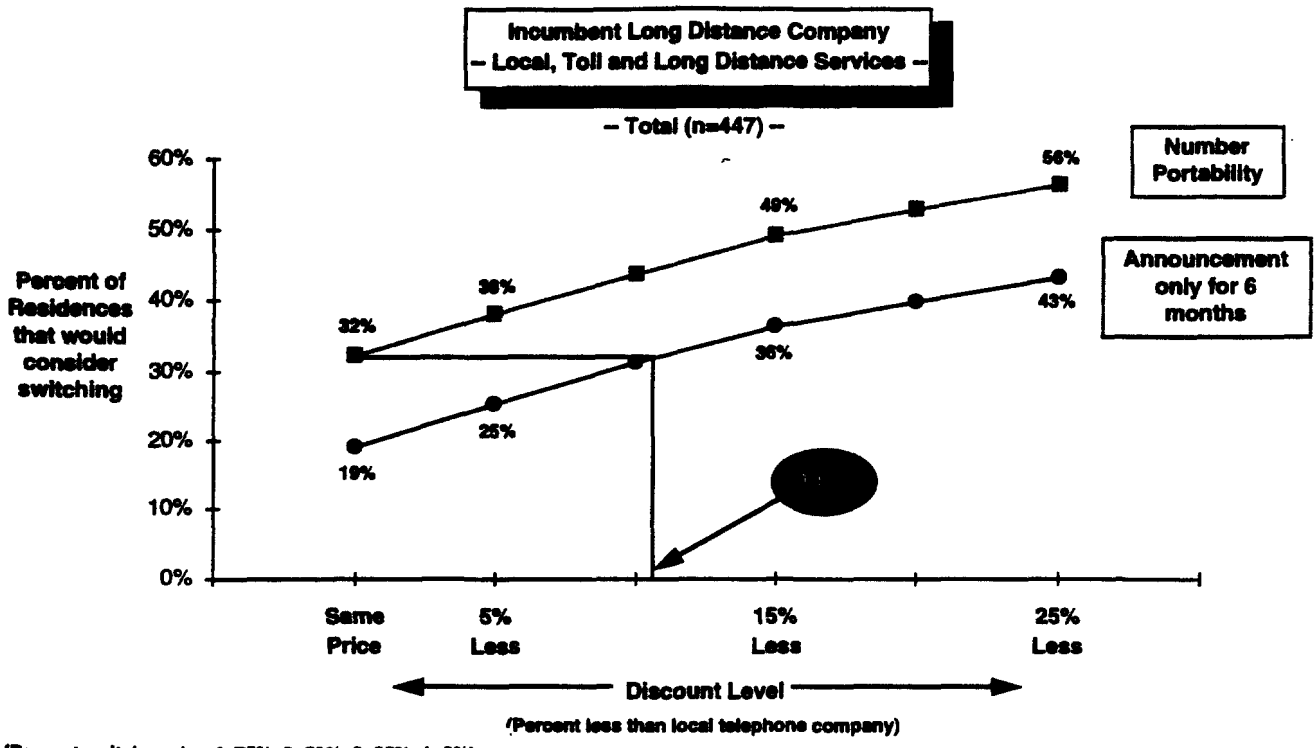
[redacted]

	Same Price	5% Less	15% Less	25% Less
[redacted]				
Another Telecom Company				
– Local, Toll and Long Distance	27%	34%	45%	51%
– Local and Toll Only	23%	29%	40%	46%
Cable TV Company				
– Local, Toll and Long Distance	23%	30%	41%	47%
– Local and Toll Only	22%	28%	39%	45%
[redacted]				
Another Telecom Company				
– Local, Toll and Long Distance	25%	31%	40%	46%
– Local and Toll Only	21%	27%	36%	42%
Cable TV Company				
– Local, Toll and Long Distance	22%	28%	38%	43%
– Local and Toll Only	20%	26%	36%	42%

(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

Other "brands" also benefit slightly if number portability is enacted. Over one-quarter (27%) would consider switching at the same price if another telecommunications company offered bundled services compared to one-third (32%) for a long distance carrier (see previous page). At parity, less than one-quarter would switch to get bundled services from a cable television company (23%), or to get local and toll services only (22%). Yet regardless of the "brand" of provider or the services bundled, the impact of discounts is dramatic, with approximately one-quarter more customers switching for a 25% discount versus the same price.

Trade-off Between Service Discount and Number Portability



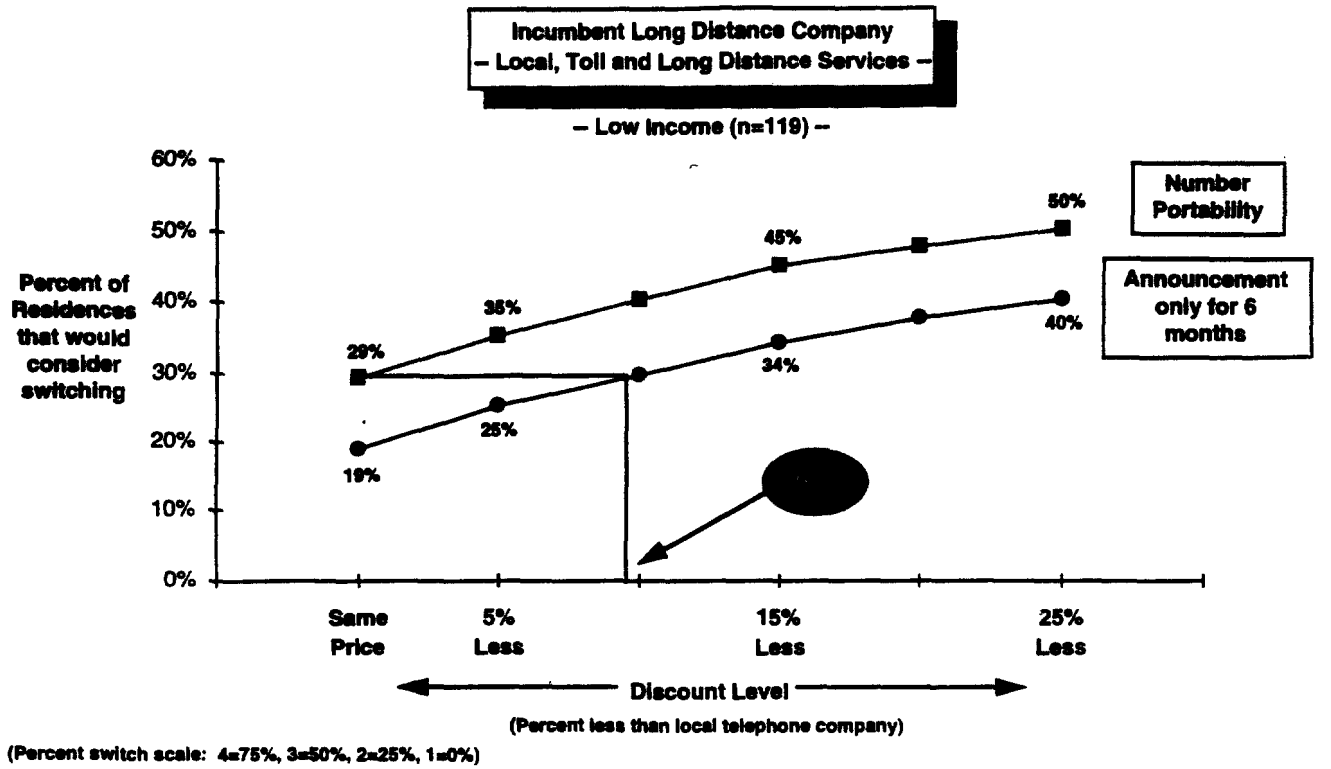
(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

Overall, the relative value of a residential telephone number is equivalent to approximately an 11% discount off local and toll services. If number portability was enacted, almost one-third (32%) would consider switching to an incumbent long distance company if local and toll services were offered at the same price as the current local provider. To achieve this same result without number portability, an 11% discount would be required.

From another perspective, the availability of number portability adds approximately one-tenth (13%) more customers in any given situation (e.g., 32% versus 19% at same price; 56% versus 43% at 25% less).

Trade-off Between Service Discount and Number Portability

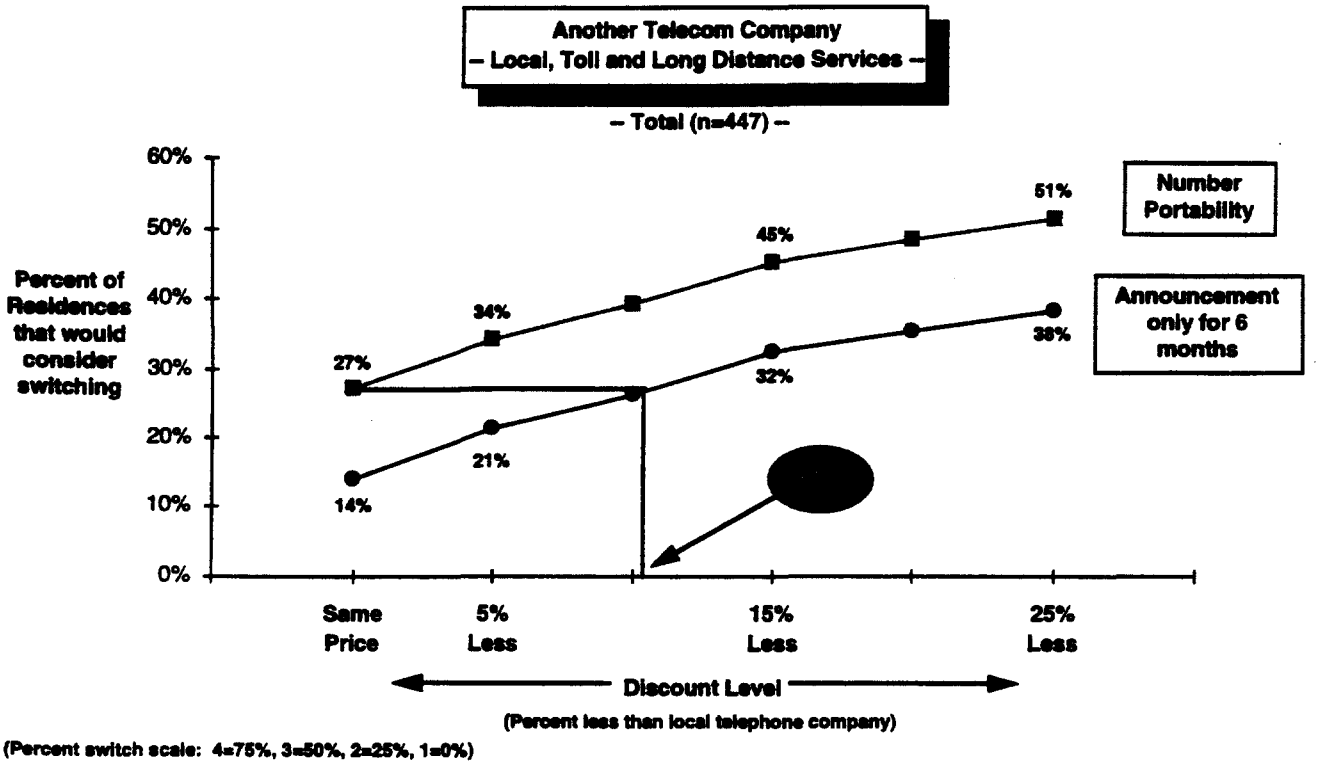


(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

Among Low Income customers, the discount required to overcome a telephone number change is slightly less, and equivalent to a 9% discount off local and toll services. In this segment, adding number portability will entice 10% more customers to switch than without number portability.

Trade-off Between Service Discount and Number Portability

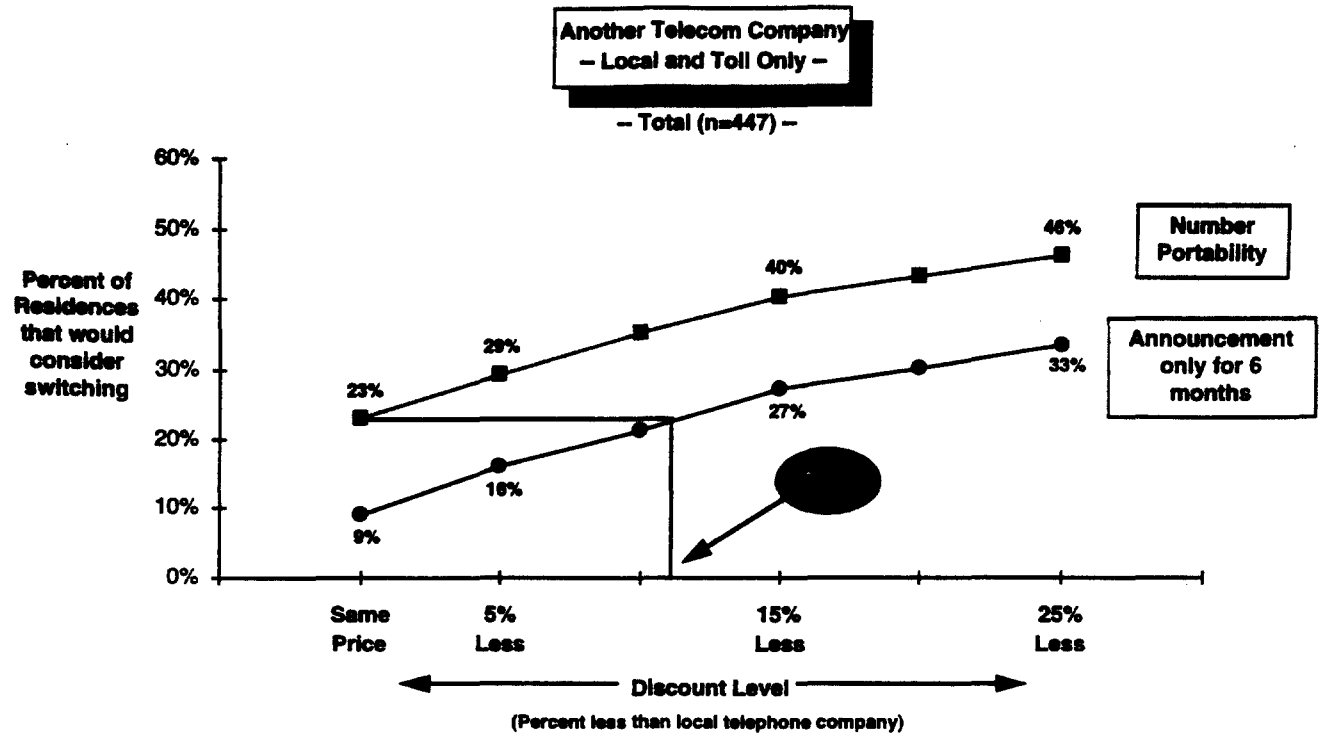


(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

If number portability was available, 27% would switch to another telecommunications company offering bundled services if offered at the same price as the current local access provider. To garner the same market penetration without number portability, an 11% discount would be required.

Trade-off Between Service Discount and Number Portability

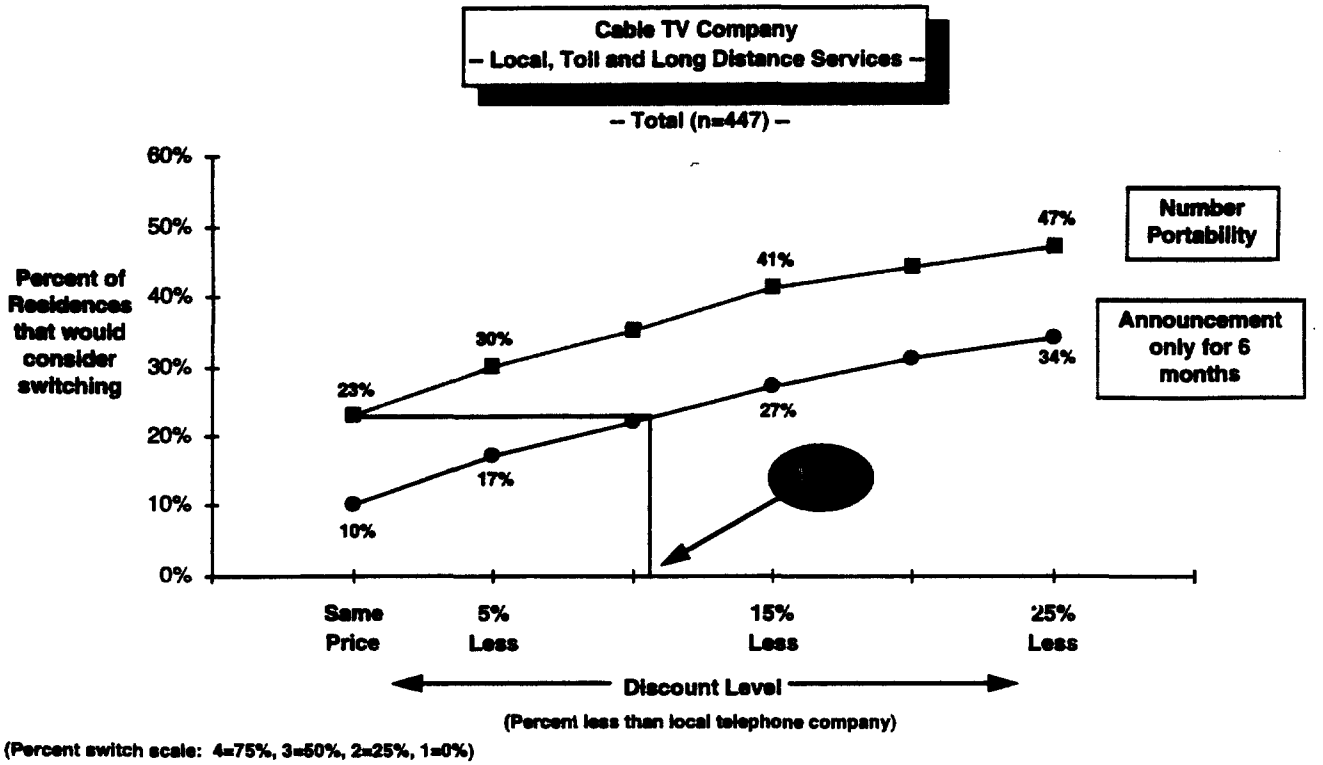


(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

When another telecommunications company offers local and toll services only, the amount of customers willing to switch for no discount is slightly reduced, even with number portability (23% without versus 27% with bundled services). However, the relative value of a residential telephone number remains the same, as an 11% discount will overcome the advantage of having number portability.

Trade-off Between Service Discount and Number Portability

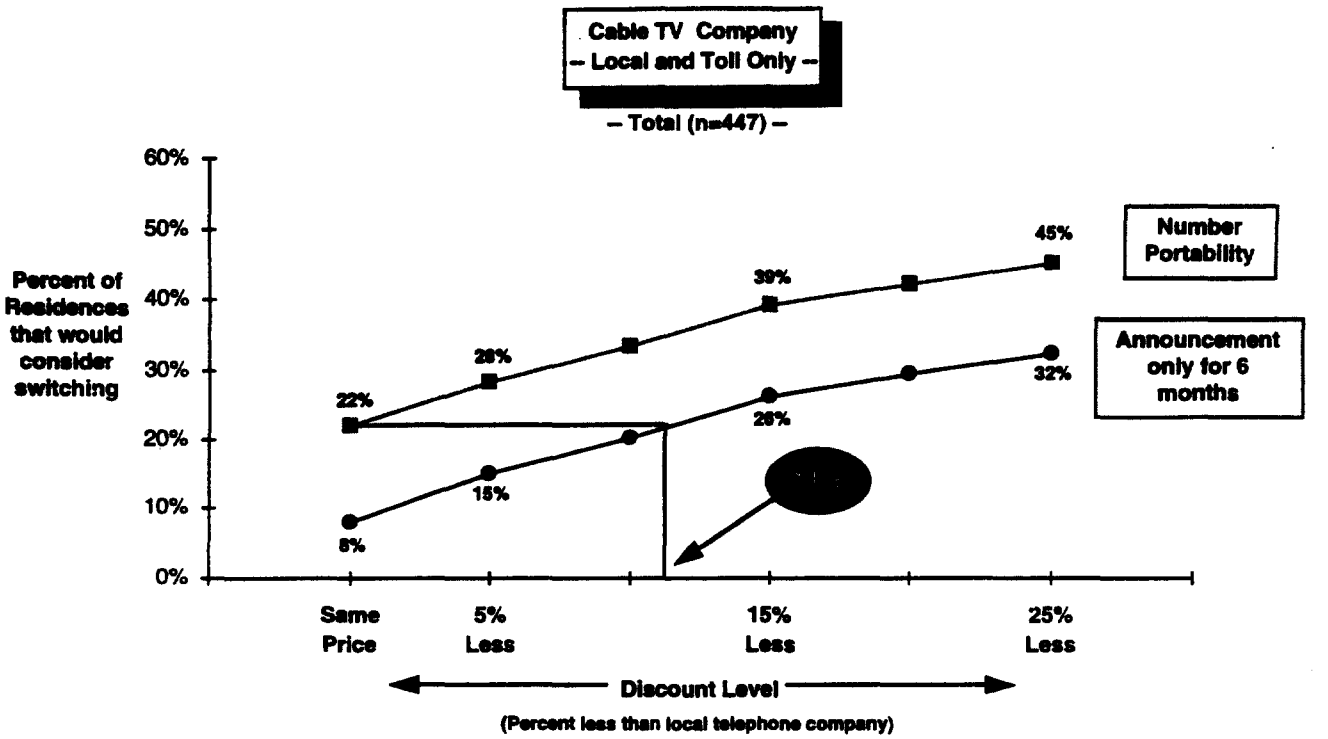


(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

At parity, only 10% would switch to a cable television company offering bundled services if a number change was required. However, with number portability, 23% would switch to a cable television company at the same price as the local telephone company.

Trade-off Between Service Discount and Number Portability



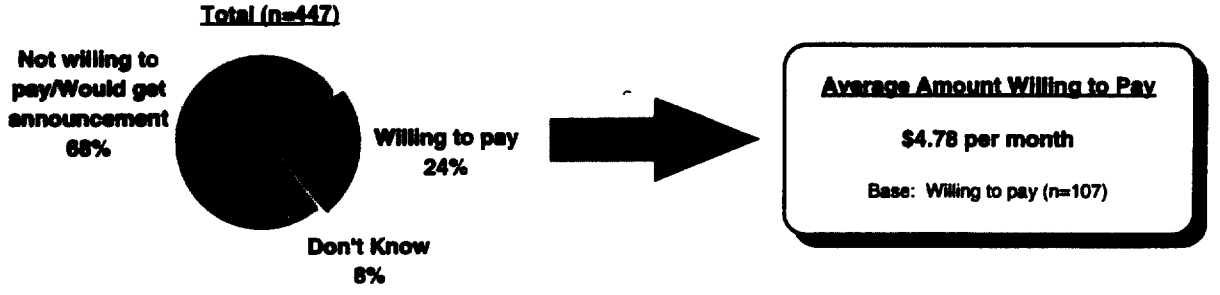
(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

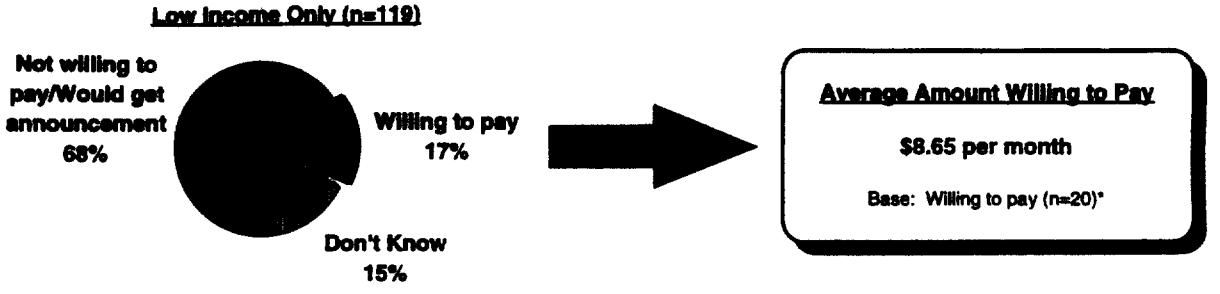
(Note: Measures for 10% Less and 20% Less were interpolated from data collected).

If a cable television company were to offer local and toll services only, the discount required to compensate for a telephone number change remains at 11%, even though the absolute proportion of potential customers is slightly lower than under other scenarios.

Willingness to Pay to Keep Telephone Number

Assuming you had to change your number to switch local access providers, how much would you be willing to pay to keep your telephone number?





* Small sample size; use with caution

While the majority of residence customers (68%) would rather change their number than pay to keep it, almost one-quarter (24%) of the respondents were willing to pay to retain their number. As these customers are willing to pay about $5.00 per month to retain their number, it might be possible to offer an optional number retention service, for those who are willing to pay for it, if number portability is not available.

Interestingly, the Low Income respondents were willing to pay almost double the amount of the overall customer base, although a smaller proportion of Low Income customers would be willing to pay (17%).